


DB-DC Beginning Dance Basic Plan Design



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"Reduce Your Taxes, Increase Your Savings"

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- ✓ **Jay N. Luber**
 - QKA

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Qualified Retirement Plans

- ✓ **Defined Contribution Plans**
 - 401(k) Plans
 - Profit Sharing Plans
- ✓ **Defined Benefit Plans**
 - Traditional Defined Benefit Plans
 - Cash Balance Plans

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Comparison

- ✓ **Defined Contribution Plans**
 - Participants have accounts
 - Contributions are discretionary
 - **Contribution limit:** \$46,000/\$51,000
- ✓ **Defined Benefit Plans**
 - Promise to pay specified monthly income
 - Contributions mandatory
 - No contribution limit

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Current industry trends

- ✓ **Traditional defined benefit plans**
 - 1985: 112,208 defined benefit plans
 - 2005: 29,000 defined benefit plans
- ✓ **Cash Balance Plans**
 - 2000: 4%
 - 2005: 10%

Source: Employee Benefit Research Institute, 2005

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Traditional Defined Benefit Plans

- ✓ **Complex benefit formula**
 - Years of service X Final Average Pay X 1%
 - e.g. $10 \times \$50,000 \times 1\% = \$5,000$
- ✓ **Confusing**
- ✓ **Difficult to understand and appreciate**

Account balances are not confusing

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Cash Balance Plans-- The best of both worlds

- ✓ Participants have individual accounts
- ✓ Contributions can exceed \$51,000
- Also called **Hybrid Plans**
 - DB Plan that looks like a DC Plan

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DB Versus CB Comparison

<ul style="list-style-type: none"> ✓ Defined Benefit Plans <ul style="list-style-type: none"> ▪ Complex formula ▪ Difficult to understand and appreciate ▪ Negative press ▪ Difficult to combine with 401(k) 	<ul style="list-style-type: none"> ✓ Cash Balance Plans <ul style="list-style-type: none"> ▪ Account balance ▪ Easy: looks like 401(k) Profit Sharing ▪ Flexible ▪ Combines seamlessly with 401(k)
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Background on Cash Balance Plans

Timeline: 1985 (Introduced by BankAmerica), 1990 (DB plans converting to Cash Balance), 2000 (Favorable Determination Letters: New Plans), 2006 (Pension Protection Act)

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Another key period

Timeline: 1985 (Introduced by BankAmerica), 1990, 2000 (Conversions held-up in court: "Cash Balance jail"), 2006 (PPA and court cases cleared-up)

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The Retirement Plan Landscape

Plan Type	Maximum contribution by plan type
401(k)	\$15,500
401(k) Profit Sharing	\$45,000
401(k) Cash Balance Plan	\$50,000 - \$250,000

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Why clients adopt these plans

Taxes, taxes, taxes

Accelerate Savings

Asset protection

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2008 Contribution Limits

Age	401(k) with			TOTAL	Tax savings*
	401(k) only	Profit Sharing	Cash Balance		
60-65	\$20,500	\$51,000	\$190,000	\$241,000	\$96,400
55-59	\$20,500	\$51,000	\$154,000	\$205,000	\$82,000
50-54	\$20,500	\$51,000	\$119,000	\$170,000	\$68,000
45-49	\$15,500	\$46,000	\$90,000	\$136,000	\$54,400
40-44	\$15,500	\$46,000	\$70,000	\$116,000	\$46,400
35-39	\$15,500	\$46,000	\$53,000	\$99,000	\$38,600
30-34	\$15,500	\$46,000	\$40,000	\$86,000	\$34,400

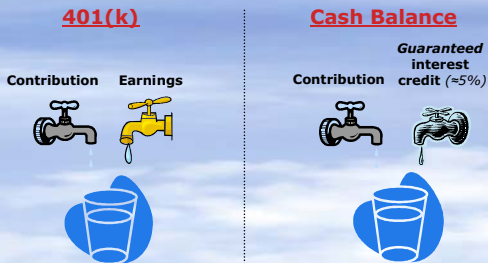


A Snapshot

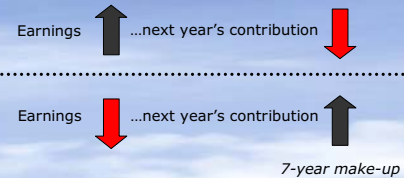
	Age	401(k)	Profit Sharing	Cash Balance	TOTAL CONTRIBUTION
Shareholder 1	60	\$ 20,500	\$ 30,500	\$0 to \$ 175,000	\$ 226,000
Shareholder 2	50	20,500	30,500	\$0 to 110,000	\$ 161,000
Shareholder 3	40	15,500	30,500	\$0 to 70,000	\$ 116,000
Shareholder 4	30	15,500	30,500	\$0 to 40,000	\$ 86,000
Employees		?	5-7% of pay		



How Do Cash Balance Plans Work?



Plan Investments



Plan Investments

- **Pooled** investments, no self-direction
- **Guaranteed** interest credit ~5%
- **Investment risk** with the employer

More investment flexibility

- ✓ Not only the 30-year Treasury
- ✓ "Market Rate of Return"



Notes

Interest Credit Flexibility

- ✓ Three Month Treasury Note: ~3.5%
- ✓ 30 Year Treasury Bond: ~5.0%
- ✓ Corporate Bond: ~6.4%

CASE STUDY: A Law Firm

	Age	Compensation
Partners		
Partner 1	52	\$ 230,000
Partner 2	49	230,000
Partner 3	48	230,000
Partner 4	42	230,000
Partner 5	40	230,000
Partner 6	39	230,000
Associate Attorney		\$ 225,000
13 Employees		\$ 505,000

CASE STUDY: A Law Firm

	Age	401(k)	Profit Sharing	Cash Balance	TOTAL CONTRIBUTION
Partners					
Partner 1	52	\$ 20,500	\$ 12,000	\$ 129,000	\$ 161,500
Partner 2	49	15,500	12,000	105,000	132,500
Partner 3	48	15,500	12,000	100,000	127,500
Partner 4	42	0	12,000	73,000	85,000
Partner 5	40	15,500	12,000	65,000	92,500
Partner 6	39	5,000	12,000	0	17,000
Subtotal		\$ 72,000	\$ 72,000	\$ 472,000	\$ 544,000
Associate Attorney	n/a	0	0	0	0
13 Employees	n/a		7% of pay \$ 32,661	\$500 each \$ 6,500	\$ 39,161

Manufacturing Company

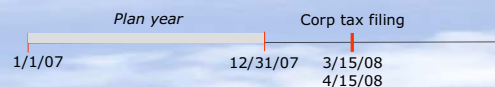
	Age	401(k)	Profit Sharing	Cash Balance	TOTAL CONTRIBUTION
Owners					
Gary	52	\$ 20,500	\$ 29,500	\$ 95,000	\$ 145,000
Michelle	47	15,500	29,500	73,000	118,000
Mark	20	0	excluded	0	0
Brittany	18	0	excluded	0	0
4 Managers		Separate (k) plan	excluded	0	0
120 Warehouse Employees		Their discretion	\$ 50,000	\$ 14,000	\$ 64,000
Total					\$ 327,000
Percent to owners					80%

Medical Group

	Age	401(k)	Profit Sharing	Cash Balance (average)	TOTAL CONTRIBUTION
44 Partners					
21 Partners	50+	\$ 20,500	\$ 29,500	\$ 120,000	\$ 170,000
23 Partners	< 50	15,500	-	75,000	90,500
Subtotal					\$ 3,845,000
58 Non-partner Doctors		Separate (k) plan	0	0	0
124 Employees		n/a	7.5% of pay \$ 511,500	\$ 124,000	\$ 635,500
Total					\$ 4,480,500
Percent to Partners					86%

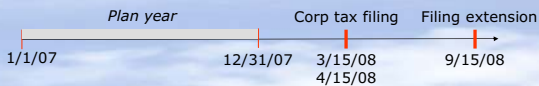
Funding Requirements

- ✓ Tax filing date of corporate tax return



Funding requirements

- ✓ Tax filing date of corporate tax return
- ✓ Including extensions, but not later than September 15th



Plan year: 1/1/07 to 12/31/07
 Corp tax filing: 3/15/08, 4/15/08
 Filing extension: 9/15/08

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Plan amendment deadlines

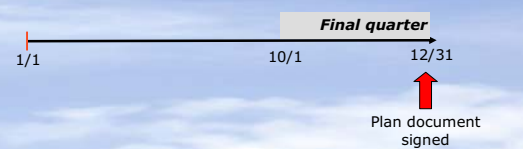


Around June 1st
 January 1 to December 31
 1,000 hours worked

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End-of-year timeline

Tax-driven decision

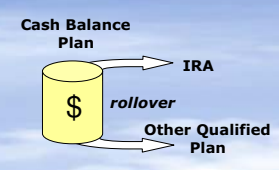


1/1, 10/1, 12/31
 Final quarter
 Plan document signed

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Cash Balance Assets are Portable

Assets are portable



Cash Balance Plan → IRA
 rollover
 → Other Qualified Plan

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Most Common Cash Balance Candidates

- ✓ Medical groups, law firms, other professional firms
- ✓ Highly profitable companies
- ✓ Principals & Senior Executives earning >\$250,000
 - Alternative to non-qualified plans
- ✓ Company willing to make employer contributions (~5% of pay)

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Questions Clients Ask:

- ✓ Can partners have different amounts contributed?
Yes.

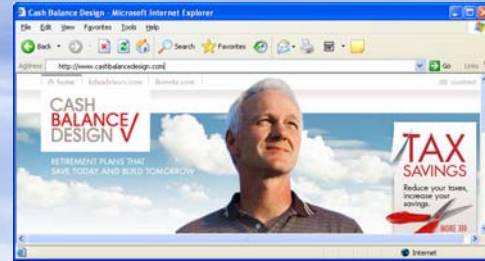
Partner 1, age 59:	\$175,000
Partner 2, age 59:	\$0
- ✓ How often can that amount change?
 - **Every 2-3 years**

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Common Concerns

- ✓ Less contribution flexibility than 401(k)
- ✓ Enough executives to participate? (%)
- ✓ Added cost: employer contribution & actuarial
- ✓ Less investment flexibility (pooled and 5%)

www.CashBalanceDesign.com



Making Company Retirement Plans Successful for 30 Years

